FDIC State Profile

Summer 2005

Virginia

Strong job growth may be moderating in Virginia.

- Despite moderating in early 2005, Virginia's remains among the nation's fastest growing states. In first quarter 2005, year-ago job growth in the state stood at 2.5 percent, significantly ahead of the national average (See Chart 1). The state's labor markets have continued to tighten, and jobless rates are well below the national average. Moving into second quarter 2005, however, monthly reports suggest that job growth may cool in several sectors of the economy.

- Economic performance has varied widely across the state. In first quarter 2005, several metropolitan areas, including greater **Washington, D.C.**, continued to grow at a rate well in excess of the national average. In contrast, Danville continued to shed jobs, albeit at a less severe rate.

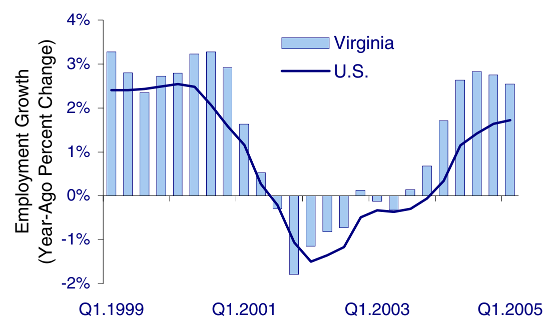
- In May 2005, the Base Realignment and Closure (BRAC) Commission released its initial recommendations, which would result in a net loss of 1,500 military and civilian positions in the state of Virginia. More critical, however, may be the uncertain impact of the BRAC Commission's recommendation to shift over 20,000 workers out of commercial real estate space which does not meet stricter security guidelines. Such a move could have a substantial affect on **Northern Virginia's** office market where the Pentagon accounts for approximately 8 million square feet of space spread across 140 sites.

Residential construction lending is supporting an active housing market.[1]

- Homebuilding in Virginia continued to expand during 2004, as residential permit issuance reached record highs. Thus far in 2005, however, the pace of construction has moderated. Similarly, home sales, though continuing to climb, have done so at a more modest rate.

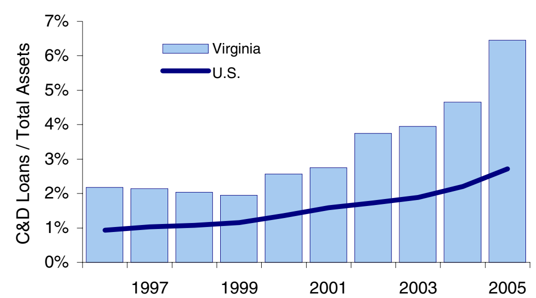
- Construction and development (C&D) lending grew nearly 37 percent from a year ago resulting in a median

Chart 1: Virginia's Employment Remains Strong



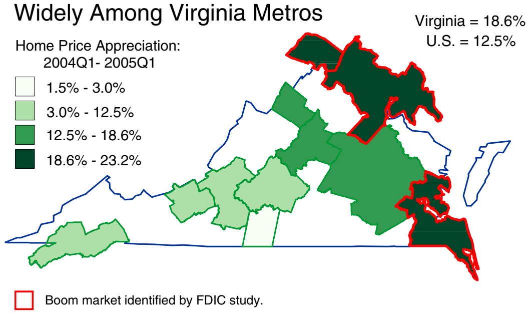
Source: Bureau of Labor Statistics

Chart 2: C&D Lending Continued to Be Robust Among Virginia Community Banks



Source: FDIC, first quarter data.

Map 1: Home Price Appreciation Has Varied Widely Among Virginia Metros



Source: Office of Federal Housing Enterprise Oversight House Price Index, FDIC FYI Revisited "U.S. Home Prices: Does Bust Always Follow Boom?" May 2, 2005.

[1] Community banks include all financial institutions with assets less than $1 billion and exclude specialty and de novo institutions.

C&D loan exposure of 6.5 percent of assets, up from 4.7 percent a year earlier. The median C&D exposure levels in the state have approximated two times the national level for the last decade (See Chart 2). The **Richmond** metropolitan area reported the highest C&D exposure statewide at 112 percent of capital at first quarter 2005 compared to 95 percent a year earlier.

Home price appreciation greatly outstrips income growth in some markets.

- Reflecting continued strong market activity, home prices in the state continue to rise at a rate significantly above the national average. However, price appreciation varies widely, particularly between eastern and western areas of the state (See Map 1). Gains in excess of 30 percent in some Northern Virginia sub-markets are not uncommon. A recent FDIC study identified 55 "boom" markets nationwide that had rapid price gains in 2004—three of which were located in Virginia.[2]

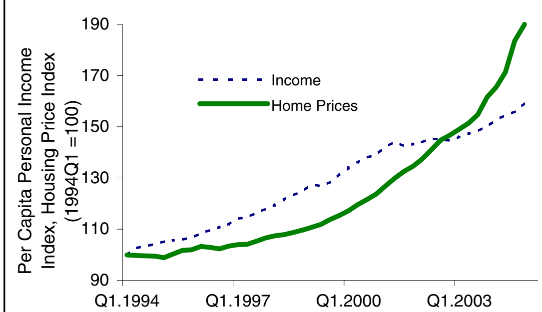
- Anecdotal reports suggest a growing level of speculation in the Northern Virginia condominium market because of multiple sales or "flipping" of pre-completion units. In contrast, housing prices along the **North Carolina** border, where economic growth has not been as robust, have struggled to keep pace with inflation. Indeed, in **Henry County** and the **New River Valley** area, April sales prices actually were down from year-ago levels.

- Gains in income have failed to keep pace with the robust home price appreciation (See Chart 3). Though still below the national average, the ratio of home prices to incomes rose to a record high in 2004 (See Chart 4). Consequently, affordability may emerge as an issue in Virginia. In 2004, estimated median household income of $63,179 was 5.6 percent below the amount needed to finance the purchase the median priced house in Virginia.[3] This shortfall may explain why slightly more than 40 percent of all securitized mortgage originations in the state were interest-only mortgages in 2004.[4] The increased use of innovative lending products may suggest that homebuyers are stretching to purchase higher priced homes. Interest-only mortgages may expose homebuyers to greater repayment risk when the interest rate resets or amortization begins.

Bank returns improve on gains in total revenue.

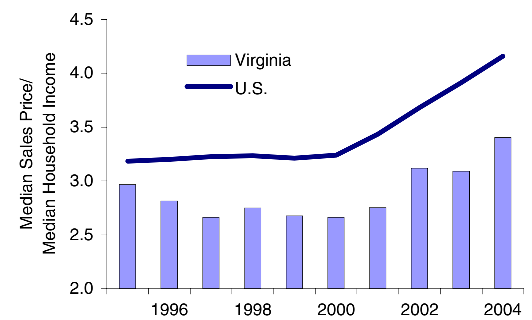
- During first quarter 2005, Virginia community banks had an increase in their return on assets (ROA). Both net interest and fee income surged during the quarter adding roughly 21 basis points to total income. However, average ROA grew only 6 basis points to 1.08 percent as banks incurred higher operating costs (See Chart 5).

Chart 3: Home Price Appreciation Leads Income Growth in Virginia



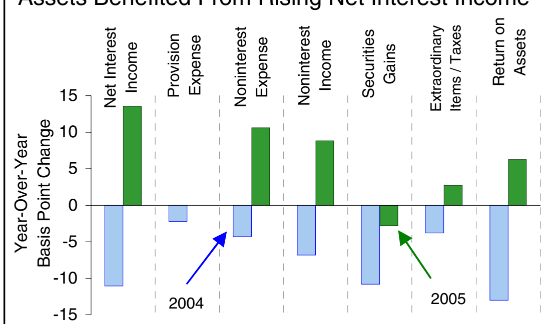
Source: Bureau of Economic Analysis, Office of Federal Housing Enterprise Oversight

Chart 4: Virginia's Home Price-to-Income Ratios Remain Below the National Average



Source: Bureau of Census and Economy.com

Chart 5: Virginia Community Bank Return on Assets Benefited From Rising Net Interest Income



Source: FDIC, first quarter data.

[2]Cynthia Angell and Norman Williams, FDIC FYI Revisited "U.S. Home Prices: Does Bust Always Follow Boom?" May 2, 2005. www.fdic.gov/bank/analytical/fyi/2005/050205fyi.html. A boom market is defined as one in which inflation-adjusted home prices rose by at least 30 percent during the 2001-2004 period.
[3]Assumes buyer purchases home with a 20 percent down payment, 30-year fixed-rate mortgage, and dedicates 30 percent of gross monthly income to debt service, taxes and insurance.
[4]Peter Coy, "A Growing Tide of Risky Mortgages," Business Week, May 18, 2005.

Virginia at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.5%	1.7%	-0.1%	-1.1%	1.6%
Manufacturing (8%)	0.2%	-4.8%	-3.0%	-8.3%	-4.0%
Other (non-manufacturing) Goods-Producing (7%)	5.8%	5.8%	-1.3%	-1.0%	4.6%
Private Service-Producing (67%)	2.8%	2.2%	0.2%	-0.5%	2.2%
Government (18%)	1.5%	1.7%	0.4%	0.6%	1.8%
Unemployment Rate (% of labor force)	3.3	3.7	4.1	4.1	2.4

Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	5.9%	2.8%	2.6%	7.5%
Single-Family Home Permits	-2.6%	6.6%	-1.7%	9.6%	-2.5%
Multifamily Building Permits	-34.7%	38.4%	-26.3%	-6.7%	67.7%
Existing Home Sales	9.4%	7.4%	3.2%	16.8%	4.6%
Home Price Index	18.6%	11.1%	8.4%	8.2%	8.3%
Bankruptcy Filings per 1000 people (quarterly level)	1.31	1.50	1.56	1.47	1.51

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	141	142	147	144	162
Total Assets (in millions)	237,489	190,318	156,644	111,801	95,946
New Institutions (# < 3 years)	12	10	9	15	26
Subchapter S Institutions	1	1	0	0	0

Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.12	1.41	1.24	1.32	1.51
ALLL/Total Loans (median %)	1.14	1.19	1.20	1.18	1.12
ALLL/Noncurrent Loans (median multiple)	3.23	2.49	2.98	2.99	2.35
Net Loan Losses / Total Loans (median %)	0.08	0.10	0.09	0.10	0.09

Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	8.88	8.78	8.49	8.63	8.72
Return on Assets (median %)	1.07	1.03	1.14	1.10	1.12
Pretax Return on Assets (median %)	1.52	1.46	1.57	1.50	1.52
Net Interest Margin (median %)	4.35	4.27	4.33	4.36	4.31
Yield on Earning Assets (median %)	6.98	6.91	7.14	7.43	7.71
Cost of Funding Earning Assets (median %)	2.70	2.66	2.80	3.07	3.41
Provisions to Avg. Assets (median %)	0.20	0.20	0.20	0.21	0.17
Noninterest Income to Avg. Assets (median %)	0.65	0.67	0.70	0.70	0.73
Overhead to Avg. Assets (median %)	3.10	3.06	3.05	3.04	3.01

Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	71.7	67.7	66.0	66.6	67.1
Noncore Funding to Assets (median %)	18.9	16.2	16.6	15.8	15.2
Long-term Assets to Assets (median %, call filers)	15.4	18.1	17.6	19.4	16.7
Brokered Deposits (number of institutions)	33	30	33	26	22
Brokered Deposits to Assets (median % for those above)	4.8	5.0	2.7	5.6	4.2

Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	71.5	78.9	84.9	83.3	87.1
Commercial Real Estate	330.8	291.9	255.7	239.2	208.6
Construction & Development	69.6	56.0	44.7	44.8	29.4
Multifamily Residential Real Estate	9.6	6.6	5.6	5.9	6.1
Nonresidential Real Estate	197.0	195.5	179.2	171.4	147.6
Residential Real Estate	242.9	241.4	246.9	247.8	237.8
Consumer	43.7	50.6	60.6	75.7	76.7
Agriculture	5.5	6.0	4.3	3.8	4.1

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Washington-Arlington-Alexandria, DC-VA-MD-WV	99	119,767	< $250 million	74 (52.5%)
Richmond, VA	36	33,150	$250 million to $1 billion	49 (34.8%)
Virginia Beach-Norfolk-Newport News, VA-NC	32	14,965	$1 billion to $10 billion	11 (7.8%)
Roanoke, VA	17	4,585	> $10 billion	7 (5%)
Kingsport-Bristol-Bristol, TN-VA	26	3,675		